

THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE (NAO)



**REPORT OF THE CONTROLLER AND ANDAUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF RUNGWE DISTRICT COUNCIL
FOR THE YEAR ENDED 30TH JUNE 2005**

The Controller and Auditor General
National Audit Office
Samora Avenue / Ohio Street
P.O. Box 9080
Tel: 255 (022) 2115157/8
Fax: 255 (022) 2117527/2255333
E-mail ocag@nao.or.tz
DAR ES SALAAM.

March 2006

AR/LG/068/2005

Office of the Controller and Auditor General

The National Audit Office,
United Republic of Tanzania

(Established under Article 143 of the Constitution of the URT).

The statutory duties and responsibilities of the Controller and Auditor General are given in the Public Finance Act No. 6 of 2001.

Our Vision

We aspire to be an organization that fosters a culture of financial discipline, transparency and accountability within the Government of Tanzania.

Our Mission

We are the Supreme Audit Institution in Tanzania, which strives to provide timely and high quality audit services to all our clients in order to enhance public sector financial performance by educating key stakeholders on the effective management of public finances; providing value added services and functioning independently and impartially in auditing and reporting on public accounts.

Therefore, our Core Values are

- ✓ We strive to achieve and maintain objectivity in providing impartial audit services so as to promote our independence
- ✓ We pursue excellence in the provision of our audit services
- ✓ We exercise professional integrity by demonstrating high ethical standards
- ✓ We focus on people and have great respect to our stakeholders
- ✓ We encourage and promote innovation amongst our members of staff; and
- ✓ We ensure best resource utilization at national as well as individual public entity level.

We do this by.....

- contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- helping to improve the quality of public services by supporting innovation on the use of public resources;
- providing technical advice to our clients on operational gaps in their operating systems;
- systematically involve our clients in the audit process and audit cycles; and
- providing audit staff with adequate working tools and facilities that promote independence.

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Table of Contents

		Page
1.0:	Background information to the audit	4
1.1:	Introduction	4
1.2:	Brief history of the client establishment	4
1.3:	Operational objectives	4
1.4:	Financing	4
1.5:	Management structure	5
1.6:	Brief description of internal control system	5
1.7:	Financial Performance Issues	5-6
1.8:	Audit mandate	6
1.9:	Audit objectives	6
1.10:	Audit scope	7
1.11:	Audit methodology	7
1.12:	Presentation of audit findings	8
2.0:	Audit report on the financial statements	9-10
3.0:	Audit findings and recommendations	11-13
4.0:	Conclusion	13-14
5.0:	Annexures Financial statements, accounting policies and notes to the financial statements Organization Structure	15

Definition of terms and Abbreviations

Financial Statements means:

The Consolidated Balance Sheet, Consolidated Income and expenditure Statement, Consolidated Cash-flow Statement, Notes and related schedules of Rungwe District Council for the year ended 30th June, 2005.

Council means - Rungwe District Council, both as Councillors as well as an operating entity.

CAG	Controller and Auditor General
CD	Council Director
DED	District Executive Director
DPs	Development Partners
LAAM	Local Authority Accounting Manual
GDP	Gross Domestic Product
LAFM	Local Authority Financial Memorandum
GOT	Government of Tanzania
HIPC	Highly Indebted Poor Countries
IFMS	Integrated Financial Management System
IG	Investment Grant
LGA	Local Government Authorities
LGRP	Local Government Reform Programme
NGO	Non-governmental Organisation
MoF	Ministry of Finance
OCAG	Office of the Controller and Auditor General
PER	Public Expenditure Review
ISA	International Standard of auditing
PO-RALG	President's Office - Regional Administration and Local Government
PS	Permanent Secretary
PSRP	Public Service Reform Programme
RAS	Regional Administrative Secretary
RS	Regional Secretariat

1.0 BACKGROUND INFORMATION TO THE AUDIT

1.1 Introduction:

I have completed the audit of Rungwe District Council for the year ended 30th June 2005. Audit findings arising from examination of accounting records, and evaluation of the internal control system which require Management attention and action, are set out under Part three of this report.

1.2 Brief history of client establishment

The Rungwe District Council was established in 1984 in terms of the provisions of section 8 and 9 of the Local Government Act (District Authorities) 1982. Besides the Act, the council operates within the framework of the following instruments.

- Local Authority Financial Memorandum 1997.
- Public Procurement Act No. 21 of 2004.
- Local Government Finances Act No. 9 of 1982.

1.3 Operational objectives

According to the Local Government (District Authorities) Act the District Council of Rungwe has the following objectives:

- (a) To maintain and facilitate maintenance of peace, order and good governance within its area of jurisdiction.
- (b) To promote the social welfare and economic well being of all persons within its area of jurisdiction.
- (c) Subject to the national policy and plans for Rural and Urban Development, to further the social and economic development of its area of jurisdiction.
- (d) Collection of Public funds through taxes, licenses, fees and charges.
- (e) To convince the public that the use of funds have achieved the maximum benefits through sound financial management.

1.4 Financing

The Council has two sources of funds; which are own source and external source. The Internal source included collection of Public funds through, taxes, fees, License and charges. On the other hand external source include subsidies from central government, grant and loans donor community. Total Income during the year was Shs.7,405,745,617.00

made up of Shs.330,861,210 from own sources and Shs.7,074,884,407 from government grants

1.5 Management Structure

The Rungwe District Council operates under directives of the full Council which is a Supreme body for legislative responsibilities.

Under the Full Council there are three Committees, which are directly answerable to it. The Chief Executive for the District Council is the District Executive Director (DED) who is responsible for the day-to-day activities. Under the DED there are ten heads of department who are sub-accounting officers and one legal advisor.

The pictorial management structure of the District Council is shown as appendix to this report.

1.6 Internal Control System

A System of internal control that should be adopted by councils is given under order 9 through 11 of the Local Authority Financial memorandum; 1997. The Order requires the finance committee to adopt written procedures for proper control of finances. In addition, the Director and the Treasure should ensure there is assignment of specific responsibilities to individual officers, an organization chart of the Finance Department division of responsibilities and periodic rotation of duties.

Accountability of all areas of operations by the Director or his designated representative to check effectiveness of the control system is mandatory. The Council is also required to employ its own Internal Auditor who reports directly to the director. Similarly, the Public Procurement Act No.21 of 2004 Section 28 (1) requires the Council to establish a Tender Board and Sect.34 (1) provides for establishment of Procurement Management Unit.

The Internal Control set up of Rungwe District Council complies with the statutory requirements, Nevertheless weakness arises from review of internal control system are included under part 3 of this report.

1.7 Financial Performance Issues

Revenue

The District Council collected an amount of Shs.330,861,210 from own sources against the internal revenue budget of Shs.366,043,090, reflecting a deficit of Shs.35,181,880 or 10% . In addition, the Council received grants amounting to Shs.7,074,884,407 making total revenue of

Shs.7,405,745,617 during the year. The internal revenue comprises only 4.5% of the total funds collected.

Expenditure

The Council spent Shs.6,545,784,706 during the year 2004/05 against the total income of Shs.7,405,745,617 or 88% of the total revenue. However, the Council closed its accounts with a surplus of Shs.859,960,911 before adjustments. A comparison of the internal revenue of Shs.330,861,210 against total expenditure of Shs.6,545,784,706.0 (net of depreciation) is only 5%, implying that the District council cannot sustain either its recurrent or development expenditure without depending on grants.

1.8 Audit Mandate:

By virtue of the provision of Article 143 of the Constitution of the United Republic of Tanzania, and Section 45 of the Local Government Public Finance Act No.9 of 1982, (revised, 2000) the Controller and Auditor General is the appointed auditor of all government revenues and expenditure, including the revenues and expenditures of this District Council.

1.9 Audit objectives.

The main objective of carrying out the audit is to enable me to express an independent opinion on the financial statements of the District Council for the year ended 30th June, 2005 and in particular:-

- To determine whether transactions were executed in accordance with the financial regulations, and recorded properly in the books of accounts for easy preparation of the financial statements.
- To determine whether the revenues due have been collected and used to meet expenses as per approved budget governing regulations.
- To ascertain whether all supporting documents, records and accounts have been properly kept in respect of all District Council activities.
- To verify whether goods and services bought were acquired through laid down procedures.
- To perform compliance tests to confirm whether Management complied in all material respects with regulations.
- To evaluate whether the internal control procedures instituted are effective to provide relevant and reasonable information to the Management, for implementing and monitoring activities and that the assets of the authority are adequately safeguarded against losses from unauthorized use or disposition.
- To verify whether the Council has implemented audit recommendations made in previous audits.

1.10 Audit Scope

The audit was carried out in accordance with the International standards on auditing. The audit covered the evaluation of effectiveness of the financial accounting system and Internal Control over the activities of the District Council, examination and verification of the accompanying financial statements and other auditing procedures as was considered necessary for the purpose of forming an opinion on the financial statements. The audit was conducted on a test check basis; therefore the findings are confined to the extent that records and information requested for the purpose of the audit were made available to us.

As auditors we are not required to search specifically for fraud; therefore our audit cannot be relied upon to disclose all such matters. However, our audit was planned so that we would have a reasonable expectation of detecting material misstatement in the financial statements resulting from irregularities or fraud. The responsibility for detection and prevention of irregularities and fraud rests with the Municipal management who are responsible for setting up and maintaining an adequate and effective system of internal control.

1.11 Audit Methodology

In auditing the financial statements together with their underlying records, the following principal audit steps were followed;

- A review of the council's regulations, guidelines and other Authority's documents as was deemed necessary under the circumstances.
- Examination of receipts and payments to confirm compliance with existing legislation, financial regulations and other instructions or directives.
- A review of the internal control structure by assessing significant policies and procedures and establish its adequacy.
- Review of financial statements, progress reports, various implementation reports and other associated information.
- Conduct compliance tests on the system of awarding contracts and their execution.
- Interview and discussion with some of the staff and other key stakeholders in the implementation of various activities.
- Conduct Local inspection to verify physical implementation of planned activities as well as assessing the progress made.
- Hold entrance and exit meetings with the auditee to discuss the audit objectives and results of the audit, respectively.

1.12 Presentation of audit findings

The audit was carried out according to the mandate stated above, applying professional standards and audit procedures that were considered appropriate in each situation.

The audit findings are divided into two parts.

The first part comprises the opinion on the critical examination of the financial statements submitted for audit and the circumstances surrounding their preparation and presentation.

The second part comprises the detailed findings on the gaps and shortfalls in the internal control system and compliance which, if rectified on time, will greatly improve the effectiveness of the internal control system applied.

2.0 AUDIT REPORT ON THE FINANCIAL STATEMENTS

To: The Regional Commissioner,
Mbeya-Region.

District Executive Director and Accounting Officer
Rungwe District Council.

**RE: INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS
OF RUNGWE DISTRICT COUNCIL FOR THE YEAR ENDED ON 30TH
JUNE 2005**

I have audited the Consolidated Balance Sheet, Consolidated Statement of Income and Expenditure, Consolidated Cash-flow Statement and the related notes and schedules of the Rungwe District Council shown as annexure 1 of this report for the financial year ended on 30th June, 2005.

Responsibility of Council Management on the financial statements

These financial statements are the responsibility of the management of Rungwe District Council.

Order Nos. 9 through 16 of the LAFM requires the Council to establish and support a sound system of Internal Control within the Council. Order No. 53 places responsibility on the Council Management to prepare the financial statements based on generally accepted accounting standards. Further, section 40 of the Act requires the Accounting Officer to keep and maintain accounts and prepare financial statements in respect of the Council operations in a manner that promotes transparency, accountability and comparability.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion based on the audit. I am also required to satisfy myself whether the funds contributed to the Council were used exclusively and judiciously to meet eligible expenditures with due attention to economy and efficiency, whether the accounts have been kept in accordance with generally accepted accounting standards, and whether they do comply with the requirements of the Local Government Finances Act No. 9 of 1982 and the Local Authorities Financial Memorandum of 1997.

Basis of opinion

The audit was conducted in accordance with International Standards on Auditing and included such other audit procedures I considered necessary in the circumstances. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the significant estimates and judgments made in the preparation of the financial statements, assessing whether the internal control system and the accounting policies are appropriate to the circumstances of the Rungwe District Council, consistently applied and adequately disclosed, evaluating the overall financial statements presentation, and assessing the extent of compliance with the statutory requirements. I believe the audit provides a reasonable basis for my opinion.

Opinion

In my opinion the financial statements fairly reflect, in all material respects, the financial position of Rungwe District Council as at 30th June 2005 and the results of its operations and cash-flows for the year then ended, in accordance with Part IV of the Local Government Finances Act No. 9 of 1982.

Further to my opinion, the procurement of office supplies, fuel, school construction, minor works, bridges construction, , and consultancy and non-consultancy services was generally done in accordance with the Public Procurement Act. No. 21 of 2004.

Matters of emphasis

Without qualifying my opinion, I wish to point out the following matters for the attention of the full Council:

- (a) The balance sheet reflected as at 30th June, 2005 a bank balance of Shs.267,829,757.00 which should be Shs.276,457,343.00 after adjustment of errors.
- (b) The Consolidated Income and Expenditure Statement wrongly included capital expenditure of Shs.1,046,095,497.00 which could have been capitalized.
- (c) The Council did not disclose its policy on debtors and creditors
- (d) Current liabilities reflected in the Balance Sheet as at 30th June, 2005 amounted to Shs.78,738,836.00 without age analysis.
- (e) The Balance Sheet as at 30th June, 2005, reflected outstanding “Sundry Debtors” totaling Shs.11,861,249.00, with no age analysis schedule.

The details on these matters are given in Part 3 of this report.

Dr. Frank Mosses Hiza Mhilu
Ag. Controller and Auditor General

Office of the Controller and Auditor General
The National Audit Office
Dar es Salaam
February 2006

3.0 AUDIT FINDINGS AND RECOMMENDATIONS

3.1 Errors in the Consolidated Income and Expenditure Statement.

The Consolidated Income and Expenditure statement for the year ended 30th June, 2005 showed a deficit of Shs. 46,473,433/- against Shs.166,547,491.00 (audit figure). The difference of Shs.120,074,058.00 attributed to the following errors when consolidating the statement: -

- (i) Wrong expenditure figures transferred from the detailed expenditure statement as narrated below: -

Category	Amount as per detailed expenditure statement (Tshs.)	Amount transferred (Tshs.)
Development projects	89,957,395.00	6,888,924.64
Basket Health Fund	153,234,332.00	128,031,936.40
Specific Expenditure	2,345,579,967.35	1,430,046,166.39
Total	2,588,771,694.35	1,564,967,027.43

- (ii) The Statement also appeared to have wrongly included capital expenditure figure of Shs.1,046,095,497.00 which could have been capitalized.
- (iii) The annual depreciation charge of shs.142,364,888.00 was omitted when preparing the statement.

Implication

The income for the year was overstated by Shs.213,020,924 expenditure by shs1,046,095,497.00

Recommendation

The Council management should revise the financial statements. and make post Balance Sheet adjustments in order not to carry over the errors to the proceeding years.

3.1.1 Inflated Bank Balances Shs.267,829,757

The bank balance as at 30th June 2005 reflected in the balance sheet is Shs.267,829,757 against Shs.276,457,343 audit figure. The difference of Shs.8,627,586 attributed to wrong bank balances as at 30th June, 2005 adopted for preparation of bank reconciliation statements as follows: -

Account	Amount as per bank certificate (Tshs.)	Amount as per bank reconciliation statement (Shs.)
Road TZ/Japan Fund	52,521.82	420,851.82
Health fund	94,098,498.26	85,102,582.17

Implication

The Cash in bank as at 30th June, 2005 appearing in the balance sheet is therefore incorrect and misleading.

Recommendation

The Council management should adjust the financial statements and clear the effects of the errors.

3.1.2 Outstanding Salary Advances - Shs.4,186,207.50

The outstanding advances related to the following accounts: -

Account	Balance (Tshs.)
General fund	1,754,712.50
Education	1,704,745.00
Health	726,750.00
Total	4,186,207.50

However, the detailed schedules indicating salary advances holders and un recovered amounts did not indicate action taken or intended to be taken for recovery of these balances.

Implication

Lack of age analysis limits assessment of recoverability of debts and implementation of debtors collection policy if any.

Recommendation

The management is advised to come up with debts collection policy as well as policy for managing creditors and ensure that the outstanding amounts are cleared

3.1.5 Outstanding debtors - Shs. 11,861,249

The Balance Sheet as at 30th June, 2005, reflected outstanding “Sundry Debtors” totaling shs.11,861,249.00. with no age analysis schedule.

Implication

Lack of age analysis limits assessment of recoverability of debts and implementation of Creditors policy if any.

Recommendation

The management is advised to come up with debts collection policy as well as policy for managing creditors and ensure that the outstanding amounts are cleared.

3.16 Outstanding Liabilities - shs.78,738,836.00

The current liabilities reflected in the Balance Sheet as at 30th June, 2005 amounted to Shs. 78,738,836/= consisting of the following: -

Category	Amount (Tshs.)
Deposits	39,967,970.29
Unclaimed salaries	6,465,128.52
Creditors	32,305,737.50
Total	78,738,836.31

Implication

The situation suggests that no vigorous action appears to have been taken to settle the creditors.

Recommendation

Immediate follow-up is necessary to clear the outstanding items.and implementation collection policy.

4.0 CONCLUSION

The detailed audit findings presented above have been communicated to the management of the Rungwe District Council during the exit meeting held on 23rd November, 2005. The Management of Rungwe District Council has promised to take appropriate action with a view to rectify the situation. I shall appreciate to receive formally the action taken in this respect.

Lastly I would like to express my appreciation for the co-operation given to the audit team. It is my hope that such good working relationship will be extended during future audits.

Dr. Frank Mosses Hiza Mhilu
Ag: CONTROLLER AND AUDITOR GENERAL

Copy to: The Permanent Secretary,
Prime Minister's Office,
Regional Administration and Local Government
P.O. Box 1923,
DODOMA

Permanent Secretary and Paymaster General,
Ministry of Finance,
Box 9111,
DAR ES SALAAM

5.0 ANNEXURE

- The financial statements of Rungwe District Council for the year ended 30th June 2005
- Organization structure of Rungwe District Council - annexure II

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS.

ORGANIZATION STRUCTURE OF RUNGWE DISTRICT COUNCIL

